UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Chapter 11
Sears Holdings Corporation *et al.*, [1]	:	Case No. 18-23538-rdd
Debtors.	:	(Jointly Administered)
	:	**Re: Docket No. 640**

LIMITED RESPONSE TO THE PRELIMINARY OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF SEARS HOLDINGS CORPORATION, *ET AL.* TO DEBTORS' MOTION FOR APPROVAL OF GLOBAL BIDDING PROCEDURES

ESL Investments, Inc. and its affiliates (including JPP, LLC and JPP II, LLC (collectively, "ESL")), in their capacity as prepetition lenders to Sears Holdings Corporation and certain of its affiliates (collectively, "Sears" and with respect to its chapter 11 affiliates, the "Debtors"), hereby submit this response (the "Response") to the *Preliminary Objection of the*

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1 The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); SHC Licensed Business LLC (3718); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SRC Sparrow 1 LLC (None); SYW Relay LLC (1870); Wally Labs LLC (None); SHC Promotions LLC (9626); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); SRC Sparrow 2 LLC (None); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); SRC O.P. LLC (None); Kmart.com LLC (9022); Sears Brands Management Corporation (5365); SRC Facilities LLC (None); and SRC Real Estate (TX), LLC (None). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

Official Committee of Unsecured Creditors of Sears Holdings Corporation, et al.*, to Debtors' Motion for Approval of Global Bidding Procedures*, filed on November 9, 2018 (the "Objection") by the Official Committee of Unsecured Creditors (the "UCC") [Docket No. 640]. In support of this Response, ESL respectfully states as follows:

RESPONSE

1. Appointed less than three weeks ago, the UCC is once again prejudging an outcome and unfairly targeting ESL. This time, the UCC takes the highly aggressive position that Sears should liquidate immediately notwithstanding the clear desire of the Debtors and their independent management to establish global bidding procedures (the "Procedures") to facilitate a going concern sale. The UCC also argues that the Procedures should be drastically amended to prevent ESL from credit bidding any of the over $2.5 billion in secured debt owed by Sears to ESL. Lest there be any confusion – the UCC has chosen the liquidation and litigation path.

2. How can it be that liquidation is advocated so quickly by the UCC, which has a fiduciary duty to all unsecured creditors, including retirees and the tens of thousands of Sears employees who would lose their jobs in a liquidation? It appears that the explanation may be that two of the UCC's members, Simon Property Group ("Simon") and Brixmor Property Group ("Brixmor" and together with Simon, the "Landlords"), are landlords of many Sears stores, both of which have a vested interest in seeing Sears liquidate without regard to the interests of Sears' other stakeholders. Indeed, the Landlords have stated publicly in recent days that their profitability will be enhanced by a Sears liquidation. For example, David Simon, Simon's Chairman and Chief Executive Officer, made his views clear in Simon's October 25, 2018 earnings call, when he said, "we are going to be able to make money on [Sears' bankruptcy]," "Sears will no longer exist in

2019,"[2] that Simon is "putting Sears in its rearview mirror." He also states that Simon intends that Sears stores will be "torn down, redeveloped, [and] re-leased." Indeed, Sears' liquidation will be a "unique opportunity" to improve Simon's bottom line.

3. Similarly, James M. Taylor, Chief Executive Officer of UCC member Brixmor Property, in Brixmor's October 30, 2018 earnings call, addressed the Sears bankruptcy. Taylor stated that Brixmor Property intended to "capitalize quickly on this opportunity" created by Sears' bankruptcy to evict Sears and "meaningfully upgrade our centers."[3] There has been no nuance from either Brixmor or Simon – they want Sears to liquidate and to do so quickly. In stark contrast, there has been no public statement from any other UCC member calling for Sears' liquidation.

4. At the same time, ESL is investing substantial resources into developing a going concern bid for hundreds of Sears stores and other Sears assets. ESL is working around the clock with potential lenders seeking to finance a bid, with potential partners to structure a bid, conducting necessary diligence and building the business plan that will support a going concern bid. All of this requires a substantial commitment of time and effort from ESL, which ESL is willing to commit so long as the process is fair, and credit bidding is available.

5. There should be no surprise that a going concern bid by ESL will involve credit bidding given that ESL has lent, on a secured basis, over $2.5 billion to Sears. Moreover, the Bankruptcy Code, in Section 363(k), explicitly permits credit bidding. Courts in Chapter 11

[2] *See* Q3 2018 Simon Property Group Inc. Earnings Call – Final, at 4 (Oct. 25, 2018) (attached as Exhibit A).

[3] *See* Q3 2018 Brixmor Property Group Inc. Earnings Call – Final, at 3 (Oct. 30, 2018) (attached as Exhibit B).

proceedings routinely approve credit bids,[4] which is "the norm,"[5] "unless the court for cause orders otherwise."[6] Courts in this district have held that the denial of credit bidding rights is an "extraordinary measure."[7] Here, the Procedures contemplate that any person or entity holding a perfected security interest in Sears' assets, even landlords, may seek to credit bid.[8] This is entirely appropriate and ESL should not be singled out for unequal treatment.

6. The UCC's problem is that it believes that the Procedures "effectively would provide no time for the Creditor's Committee to object" to ESL's credit bid. Objection at ¶ 13. However, no basis exists to assert that the investigation, whether by the UCC – or the Subcommittee of the Restructuring Committee of the Sears Board of Directors (the "Subcommittee") – cannot be finished by December 31, 2018, or even sooner. There is a finite subset of transactions that could be implicated in an ESL credit-bid scenario. The UCC should focus on an efficient and comprehensive review of these transactions and do its work. ESL is confident the review will show that ESL's liens and claims are valid and enforceable.

7. ESL is cooperating with the investigations of both the UCC and Subcommittee. ESL has already made multiple productions of information and documents in response to requests by the Subcommittee, which will be available to the UCC. ESL will continue to promptly provide information and documents responsive to requests made by both the UCC and Subcommittee in order to help facilitate the efficient completion of their respective investigations.

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[4] *See RadLAX Gateway Hotel, LLC v. Amalgamated Bank*, 566 U.S. 639, 644 n.2 (2012) ("The ability to credit-bid helps to protect a creditor against the risk that its collateral will be sold at a depressed price. It enables the creditor to purchase the collateral for what it considers the fair market price (up to the amount of its security interest) without committing additional cash to protect the loan.").

[5] *See In re Aeropostale, Inc.*, 555 B.R. 369, 415 (Bankr. S.D.N.Y. August 26, 2016).

[6] 11 U.S.C. § 363(k).

[7] *See In re Aeropostale, Inc.*, 555 B.R. 369, 415 (Bankr. S.D.N.Y. August 26, 2016).

[8] Motion at ¶ 19(e)(1).

CONCLUSION

8. To conclude, ESL respectfully requests the Court enter an order (1) granting the Motion; (2) denying the Objection; and (3) granting such other and further relief as this Court deems just and appropriate under the circumstances.

Dated: New York, New York
November 13, 2018

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EXHIBIT A

NewsRoom

10/25/18 FD (Fair Disclosure) Wire 11:30:00

FD (Fair Disclosure) Wire

October 25, 2018

Q3 2018 Simon Property Group Inc Earnings Call - Final

Presentation

OPERATOR: Good day, ladies and gentlemen and welcome to the Third Quarter 2018 Simon Property Group, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Tom Ward, Senior Vice President of Investor Relations. Sir, you may begin.

THOMAS WARD, SVP OF IR, SIMON PROPERTY GROUP, INC.: Thank you, Joel. Good morning, everyone and thank you for joining us today. Presenting on today's call is David Simon, Chairman and Chief Executive Officer. Also on the call are: Rick Sokolov, President and Chief Operating Officer; Brian McDade, Chief Financial Officer; and Adam Reuille, Chief Accounting Officer.

Before we begin, a quick reminder that statements made during this call may be deemed forward-looking statements within the meaning of the safe harbor of the Private Securities Litigation Reform Act of 1995, and actual results may differ materially due to a variety of risks, uncertainties and other factors. We refer you to today's press release and our SEC filings for a detailed discussion of the risk factors relating to those forward-looking statements.

Please note that this call includes information that may be accurate only as of today's date. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures are included within the press release and the supplemental information in today's Form 8-K filing. Both the press release and the supplemental information are available on our IR website at investors.simon.com.

For our prepared remarks, I'm pleased to introduce David Simon.

DAVID E. SIMON, CHAIRMAN & CEO, SIMON PROPERTY GROUP, INC.: Good morning. We're pleased to report another record quarter with continued strong operating and financial results. Our investment in our product remains unabated with a long-term view of creating compelling, integrated environments with critical mass that serve as the hub of retail dining, entertainment and socializing within their communities. We completed several significant new developments and redevelopments in the quarter, are under construction on others and announced more transformational mixed-use activity that will further enhance the value of our real estate and grow our cash flow.

Turning to the results. Highlighted FFO by $1.090 billion or $3.05 per share, an increase of 5.5% per share compared to the prior year. We continue to grow our cash flow and report solid key operating metrics. Total portfolio of NOI increased 4.1% or approximately $188 million to date. Comp NOI increased 2.3% for the year-to-date period. Leasing activity remains solid. Average base rent was $53.88, up 2.8% compared to last year.

The Mall and Premium Outlet recorded leasing spreads of $7.59 per square foot, an increase of 13.9%. We're pleased that retailer sales momentum continued. In the third quarter, our Mall and Premium Outlets was $650 compared to $622 in the prior year period per foot, an increase of 4.5%. And sales were strong across the portfolio in the third quarter.

Retail sales productivity has increased each month over the last 12 consecutive months. Occupancy at the end of the quarter was 95.5% -- I'm sorry, 95.5%, an increase of 80 basis points for the second quarter and an increase of 20 basis points compared to prior years. On an NOI weighted basis, our operating metrics were as follows: retail sales would be $817 per foot compared to $650, occupancy would be 96.3% compared to 95.5% and average base minimum rent would be $71.21 compared to $53.88.

At the end of September, we opened Denver Premium Outlet centers, fully leased, it's off to a great start. Center is another terrific asset within a great portfolio in a great location in a strong and growing market. Construction continues on 2 international outlets expected to open in 2019 Queretaro, Mexico and Malaga, Spain. And we announced a 50-50 joint venture with Macerich to create Los Angeles Premium Outlets. This will be an exciting project on fantastic real estate and obviously, one of the country's most attractive markets.

Now at the end of the third quarter, redevelopment and expansion projects were ongoing across all of our platforms in the U.S. internationally. And internationally, we started construction on significant expansions of Paju Premium Outlets in Seoul and Tosu Premium Outlets in Japan.

Last week, we held the groundbreaking of our landmark mixed-use transformation at Phipps Plaza that will include Atlanta's first Nobu Hotel and Restaurant, a Class A office building, a life time athletic resort, food hall and outdoor community gathering space, all in the area of one department store that we reclaim. We also announced our transformational vision for Northgate in Seattle. We're thrilled to collaborate with NHL Seattle, make their training center and corporate headquarters an integral element of the reimagined Northgate community. This project is a prime example of our unique ability to repurpose our well-located real estate to create compelling ways for consumers to live, work, play, stay, shop and now skate at our destination.

Now Sears. Over the last several years, as you know, including what we just recently did at Phipps, we have reclaimed a number of our unproductive stores in our -- department stores in our portfolio. The reclamation of unproductive space, specifically some department stores, is an unprecedented opportunity for us to dramatically enhance the productivity of the space, our centers overall, and we will continue to proactively recapture additional stores to further enhance our centers.

The SPG portfolio currently has 33 Sears stores that Sears has closed or announced they will be closed. Of those 33 stores, we have, through proactive action, control 22 of those 33, 5 of which are in our joint venture with Seritage. Of those 17 that we control, Sears will no longer exist in 2019. They will be demolished, replaced and redeveloped.

Now turning back to the 33, Sears owns and controls 5 that will be closing and Seritage controls 6 for the total of 33, not including the ones in our joint venture, and they are -- Seritage is in the process of redeveloping those and are in construction -- under construction with 6 of those former Sears stores. The remaining, we have 29 that are currently operating, 8 are owned by us and leased to Sears, 4 are owned by Seritage and leased to Sears and 17 are owned by Sears.

Turning to capital markets. During the first 9 months, we closed on 13 mortgages, totaling approximately $3 billion, of which our share is approximately $1.3 billion with a weighted average interest rate of 3.83%, term of 8.4. We have the highest-investment grade credit rating in the industry. Our net-to-EBITDA was 5.4x. Our interest coverage is 5, which is well in excess of our peers, well in excess on both fronts. Our current liquidity is $7 billion. We continue to have excess cash flow, which we can reinvest in our businesses.

Today, we announced our dividend of $2 per share for the fourth quarter, a year-over-year increase of 8.1%, and we're approaching the $100 per share dividend since we've been public, which we will celebrate in December. So $100 have been paid to the shareholders roughly in dividends through our public company existence. Our total dividend payment will be $7.90 in 2018, which is an increase of 10.5% compared to last year.

Now turning to guidance. We once again raised our full year guidance to $12.09 to $12.13. Just to keep in mind, this is an updated range compared to our -- updated range includes -- compared to our original guidance of $11.90 to $12.02. And this range -- this new range is a growth of approximately 7.9% to 8.2% compared to our reported FFO of last year.

So we're ready for questions but before I turn that over, we had a very strong quarter, and we continue to grow our cash flow.

Questions and Answers

OPERATOR: (Operator Instructions) Our first question comes from Steve Sakwa with Evercore ISI.

STEPHEN THOMAS SAKWA, SENIOR MD & SENIOR EQUITY RESEARCH ANALYST, EVERCORE ISI INSTITUTIONAL EQUITIES, RESEARCH DIVISION: I just wondered, if you or Rick could just talk maybe a little bit about the leasing environment. And as you sit here today, looking forward, maybe just reflect on the last year and how you felt maybe a year ago and just sort of give us a flavor for the leasing environment?

DAVID E. SIMON: Well, we tend to take a longer-term view. So we can talk about quarter-to-quarter or even year-to-year. But as you know, we take a longer-term view. And I would say, certainly our long-term view has not changed. The activity has increased from '17 to '18. I think there is clearly -- for the retailers that are investing in their product, there is increased sales, as you know. We showed you that. And I'd say, it's certainly generally better than last year. But again, you got to take a longer-term view. We have more activity going on. There is more new concepts on the restaurant, entertainment, overall retail. You got the folks that start out on the Internet that want to own physical stores. So I'd say, generally the environment is better. But as you know, we never really were overly concerned about maybe a less robust leasing environment in '17 because we tend to take longer-term views of this. Happy for Rick to add anything he would like to this.

RICHARD S. SOKOLOV, PRESIDENT, COO & DIRECTOR, SIMON PROPERTY GROUP, INC.: The only thing that I would add is that, there is, I sense, an acceleration. Last year at this time, I think people were talking but there was less aggressive approach to opening new stores. I think, as David said, the people that are well positioned are now more encouraged to open stores. Obviously, sales are better. The profitability is better, and we are very well positioned. We don't talk about it a lot but every day, every one of our properties is getting better because of the capital we're spending.

STEPHEN THOMAS SAKWA: Okay. David, secondly, I just noticed on the leasing spreads information you provided on Page 22 of the supplemental. There was a pretty big jump in the square footage of openings and a pretty sharp decline in the average rent per foot. I realize these are trailing 12-month figures but it almost appears like maybe a different set of assets is being compared now. Do you have any comments on that?

DAVID E. SIMON: Sure. We're -- again, I -- what's the most important thing that I focus on, just so we're clear.

STEPHEN THOMAS SAKWA: [Got it there].

DAVID E. SIMON: You got it. So -- and the operating metrics, it's funny, right? Just to take a step back. So when sales were -- it's always like, okay, what's the operating metrics du jour, okay. And the reality is, our business is changing,

in that we're going to be recapturing these boxes that pay very low rent, and we're carving them up. And we're now showing to you that, love metrics, okay, the importance of the embedded growth in our business by recapturing these leases that pay very low rent. So we'll put all of our openings and all of our closings in that number, so that you can see the embedded market rent growth that we have in our business.

STEPHEN THOMAS SAKWA: Okay. And then lastly, just in the Other Income, I know there were different components. And last year, you had some securities gains and this year you didn't. But is there any -- there was a big jump in the Other Income, and I just know there's a lot of different things that run through that but are there any comments and things you can give?

DAVID E. SIMON: Yes. So last year, as you know, we sold the Seritage stock at 48, 49, which I think, if I look today, it was a pretty good trade to sell it at that rate. In other income, we did get our business interruption, not all of it but some of it from Puerto Rico and that's what's in Other Income. It doesn't flow through the operating numbers. That was -- we always had planned to get that. It's always been in our numbers but you can't book that until you actually get the cash from that, according to GAAP. And then, we got some of that BI in the third quarter.

STEPHEN THOMAS SAKWA: Okay. Is there a number you could share with us that's kind of embedded in that Other Income or...

DAVID E. SIMON: Well, it's the big jump in that, the vast majority of it, yes.

STEPHEN THOMAS SAKWA: It's vast majority, the $20 million [increase]? Okay.

DAVID E. SIMON: That's correct. And it really is -- now so you know, we always planned on getting the BI, you just can't show it in your normal minimum rent or CAM recoveries or any of that information. It's got to be in Other Income.

OPERATOR: Our next question comes from Christy McElroy with Citi.

MICHAEL BILERMAN, MD AND HEAD OF THE US REAL ESTATE AND LODGING RESEARCH, CITIGROUP INC, RESEARCH DIVISION: It's Michael Bilerman here with Christy. David, can you just elaborate a little bit on Sears. You were named to the creditors' committee yesterday, so maybe talk a little bit about the role that you plan to play there. And you went through a lot of different numbers in terms of the Sears boxes. If you just look sequentially, you went from 59, effectively down to 46, which includes the 17 which are closing. So there's 13 stores during the quarter that fell out. I wasn't sure whether those were recaptured during the quarter and form part of some redevelopment plan but just looking sequentially [sub-to-sub] 59 to 46, inclusive of the 17 that are closing, just try to get some color there?

DAVID E. SIMON: Yes. Look, I think the thing to focus on, we're putting Sears in our rearview mirror, okay? So what we're trying to explain and there are a lot of moving boxes, and obviously, the whole situation is a tragic -- frankly, put aside how it affects us, we think this is a unique opportunity. We're going to redevelop this. We're going to generate positive momentum with the properties due to this. We're going to reinvest in the communities. We're going to be able to drive traffic now from this box. Put all of that aside, we're going to be able to make money on this. Put that all aside, if I may, and just it's a tragic set of events that a company that's been around for so long is in this state of affairs. So that to us is -- that's what I think about. It wasn't that long ago, 10, 12 years ago that 300,000 people worked at Sears, okay? So I mean, I think, we should put that in perspective but let's focus on what we -- the task at hand. And what I'm trying to do and there are a lot of moving parts. But basically and what I explained, I'm sure I garbled some because I have a hard time spitting out words. But the reality is we have 33 stores that have -- are closed or in the process of closed at the end of this year. We control 22 of those. And 5 of those are in our joint venture with Seritage. Of the 17 that we have unmitigated control, Sears will no longer exist in '19. They will either be torn down, redeveloped, re-leased but they

will be in our rearview mirror. So we are effectively down to 29 operating stores. We own 8, Seritage owns 4 and then the 17 are owned by Sears. And we'll have to wait and see what happens on the -- in terms of whether they'll continue to operate those or not. Obviously, we're planning for the ultimate unfortunate demise of Sears, and we're ready for it. And we have the balance sheet and the capital, intellectual and human resources to deal with this -- these set of events. So that's what I would focus on. The other thing to keep in mind is that, there's also Seritage that owns some in that, and they've done a reasonable job of re-leasing some of their space. So those are the numbers that I would focus on. And it's still moving around because they -- some are closed, some aren't, but that -- those are the numbers. At the end of the day, next year, we'll report 29 Sears stores, that's it.

MICHAEL BILERMAN: Right. It sounds like there were at least 11 that are controlled by others, other than you and Seritage that closed during the quarter. It's going from that 33 to 22, right?

DAVID E. SIMON: That's correct. Sears owns the balance of those. That's correct, that's correct.

MICHAEL BILERMAN: And then -- but the creditors' committee and sort of your role there, and it's worth a mention not a big competitor...

DAVID E. SIMON: There is no comment that I can have on that where we -- for better or worse, we tend to be on creditors' communities with large, unfortunate bankruptcies of retailers. So we have a certain expertise in that. We'll see how it all plays out but beyond that I can't -- I really can't comment.

MICHAEL BILERMAN: Can you talk a little bit about international in terms of what's happening there. Obviously, Kl[#]©pierre, its shares are -- have come down meaningfully alongside a lot of other real estate stocks in Europe. There's obviously been consolidation activity going on there in part. Kl[#]©pierre tried to make the bid for Hammerson, when Hammerson went after Intu. And now Intu has its own consortia bid from their main shareholder alongside capital sources. How are you thinking about Europe overall, both of your investment in Kl[#]©pierre? But then, also, consolidation opportunities in that region, whether that would be Simon-led or Kl[#]©pierre-led?

DAVID E. SIMON: Well, that was -- that -- I would classify that as an add-on sentence but let's put that aside. I'm very comfortable with our investment in Kl[#]©pierre. They have -- I mean, I have to look at the long-term prospects of that company, measured against kind of the short-term volatility. And from a long-term perspective, I don't really see any real change. There is very little new development. They have a lot of redevelopment activity. They're good operators, getting better. So our investment is solid, and stocks go up, stocks go down. We take a long-term view. I -- we have exposure in Europe, not only through Kl[#]©pierre but obviously, through McArthurGlen and through our interest in value retail. I would tell you that the market generally ignores and underestimates the value that we have outside of the U.S., whether that's Mexico, Europe, Asia, there is no appreciation of the value that we've created in that. That's fine. We continue to do what we do. I don't really -- we -- I think, we mentioned briefly, what Kl[#]©pierre did on Hammerson. That's in the -- that's in their rearview mirror. I think that's better coming from them. I think the CEO has made that clear to investors. Not much I can add to that. And there's nothing I can add to what's going on with Intu. I mean, we don't -- as they say, we don't have a dog in that hunt, so here in Indiana that is. But -- so I continue to think Europe is fine. It's certainly -- they -- the better -- I think the trends there are similar to ours, and that the better assets will get better and the ones that are smaller, unless they're uniquely positioned, will be put under pressure. But even the better ones will grow, will offset whatever diminution might have happened on the little ones. So I generally feel pretty good. I mean, there are parts in Europe that you might want to avoid, i.e. Turkey and other places like that, given the currency and the lira and what happens on that front. But generally, I think it's okay. Look, we -- I'm sure the Kl[#]©pierre team has a focus on Italy, what's going on there. You have Brexit. So you could certainly take a contrarian view at the right time. We did that in 2012, when we invested in Kl[#]©pierre. Could we be coming into another contrarian point of view? Perhaps, but we're really not overly active other than making sure our investments grow in value.

OPERATOR: Our next question comes from Jeremy Metz with BMO Capital Markets.

ROBERT JEREMY METZ, DIRECTOR & ANALYST, BMO CAPITAL MARKETS EQUITY RESEARCH: Just going back to the Sears boxes in terms of the 17 that you are expected to close by year-end, the 22, including the Seritage JV. I know it's a little early here still. But can you sort of frame it out from a timing and capital allocation perspective in terms of how much of this you really think will fall into redevelopment, potentially kick off some larger redevelopments? And what sort of rough capital investment this could possibly represent?

DAVID E. SIMON: Well, it -- remember, part of -- the vast majority of the 17 of the 22, we actually transacted to get back. When was that?

UNIDENTIFIED COMPANY REPRESENTATIVE: November.

DAVID E. SIMON: November, okay. So remember that, just to put that in perspective. So those plans are already moving. I mean, not to -- just to name a few, Northshore, Cape Cod, Brea, Stoneridge, Broadway, Midland, just to name a few. So all of those are coming online, and that's why I made the comment that the 17 that we control, Sears is going to be gone. There won't be -- you won't -- there will not be a Sears, it will be either gone under construction or we'll take the box and there will be a new retailer, hopefully open by then but obviously, it does take time. So the 22 of the 33 are basically all under redevelopment. The capital of that is over $1 billion, that's always been in our plan. And there is no surprise there. And so that's -- that we are moving at a high level to redevelop those boxes as quickly and as smartly as we can. Then there is 11 that Sears and Seritage own that we're not involved in. I think Seritage, of those 6 -- and again, there's a lot of numbers here, that's why I'm repeating myself, and I appreciate the question. Of those 6, Seritage has already redeveloped over half of those. So those are moving. They're doing those independently in conjunction with us but independently and that's fine. And then there is 5 that Sears owns, and then we'll see what happens with that real estate. And I think it's a blanket statement that we would love to own at the right price any of the real estate that we don't control. And so we -- patience, seeing how this plays out is important. So I hope that answers it but it will be well over $1 billion. You'll start to see in the 8-K, the stuff as we approve it. I don't know. I'm asking Tom. I don't know. We just approved Cape Cod, Northshore...

THOMAS WARD: There are some in there.

DAVID E. SIMON: There are some in there. So you're going to see it. We have a busy capital appropriations committee. We approved 3 or 4 Monday, you'll see those in the fourth quarter numbers. So it's all moving quickly. We're -- and I would tell you generally other than, obviously, to see a retailer like Sears end up where it is, I mean, this will be fine for us. We'll add value to the real estate. We wish it would have been done in a different manner but we have to confront what we have to confront, and I think we'll make this -- it will be an opportunity for us just like everything else we've dealt with over the last 25 years as a public company.

ROBERT JEREMY METZ: No, I appreciate that color. And as we see that start to come onto the development pipeline, I mean, is it fair to assume the same kind of yields you've been achieving that 7% to 8% on redevelopments or would it be higher here?

DAVID E. SIMON: Yes. No, look, every -- as you know, every deal is different but that's -- that would be our goal for sure.

ROBERT JEREMY METZ: Great. And second one from me, just going back to the leasing commentary about the environment being a little better here today. Are you starting to see this translate into your leases as well in terms of timing to get deals done, terms, leasing, capital? Or is it more just on the activity front at this point? And then, in terms of rents. We've talked about this before but you're not necessarily getting the benefit of sales in an area move online but

you do feel the return to the store level. So to that end, are you starting to push occupancy costs to account for that leakage? You're looking at other metrics to understand tenant profitability and therefore what a tenant can pay and are tenants accepting that this old model maybe needs to change? Or is just more of an educational process on both sides still at this point?

RICHARD S. SOKOLOV: This is Rick. Obviously, you covered a lot of ground. Let me take it apart. One, our terms, our TA are certainly within the norms that we've established over the years. Our tempo of leasing is accelerating in that. We now have more tenants coming in saying, "All right. Let me look at 5, 10, 15 openings for '19." That is an acceleration from what we had this time last year. That's encouraging. Our occupancy costs today are the lowest they have been in the last 2.5 years, so that's encouraging and that's taking into account the fact that there is an understatement of sales productivity. All of our leasing agents are totally aware of not that potential but that fact. And as we are pricing our real estate, we are prosecuting that to the extent we can to drive rents. And you've seen our average base rent go up, so -- and our spreads are going up.

DAVID E. SIMON: I would just add though. I mean, it is -- retailers are smart and savvy. They are doing what they need to do on the -- on their cost structure and -- so it's not easy. But like I said, we have a unique position in this industry. We have really quality properties, a lot of scale. We have the ability to think. We have the ability to be patient. We have the ability to say, no. We take gambles. We win. We lose. We draw. So we do okay but it continues to be -- it's not -- it's still -- there is still very thoughtful negotiations. There -- everybody is focused on increasing their profitability. They're no different with us. And we just -- we try as hard as we can to create a decent win-win scenario. And then when we do that, the math spits out. And -- but it's better than it was last year. The long run, we have no worries about where we're going to be. And I think as we continue to redevelop, we're going to make these properties fantastic. But in the meantime, we're going to be in this spot where it's going to be a thoughtful, diligent but appropriately focused negotiation between us and our best clients.

OPERATOR: Our next question comes from Craig Schmidt with Bank of America.

CRAIG RICHARD SCHMIDT, DIRECTOR, BOFA MERRILL LYNCH, RESEARCH DIVISION: I noticed on your redevelopment activity, the yields for the Premium Outlet redevs went from 10 to 11 and the mills went from 11 to 13. I just wondered what was pushing those returns? And is it, perhaps, that the leasing is going better at these redevelopment efforts?

DAVID E. SIMON: That I wouldn't -- those are hard to like extrapolate trends. I think it's just a function of mix, nothing that really jumps out. But I'm sure, we'll look at it, and Tom could answer. But I just think it's probably just mix at the top of my head, nothing major. No change. We do have the ability, I think, to continue that value through our redevelopment, new development efforts. And it goes up and it will go down but it will -- that gives you the directional idea of kind of where things are.

CRAIG RICHARD SCHMIDT: Okay. So -- and I mean, it's clear that although the construction costs are going up, that it really isn't impacting your returns on these?

DAVID E. SIMON: Well, that's a good question, and let me just say this. Everything -- we are -- it's a good point, and let me address this, this way. I mean, we are -- we have no risk at this point but things always change. But at this point, we have absolutely no risk in what we're building today. You always have contingency in there but nothing what I would say beyond our contingency. And obviously, our contingencies in our 8-K. We are seeing a general increase in construction costs. It's really a market-by-market scenario. But the rise -- potential rise of those costs are not in any way at the point where we're saying, we can't make the numbers work. I don't anticipate that happening but obviously, we're paying attention to it.

CRAIG RICHARD SCHMIDT: Okay. And then, we keep hearing about new technology in both retail and just the retail center. I wonder if there is anything new that might surprise consumers this holiday season, whether it's unmanned checkouts or mobile apps making things more personalized or virtual or augmented reality?

DAVID E. SIMON: Well, I think we and all sorts of retailers and technology companies are focused on a couple of things: payment, obviously; driving traffic, which could be through a lot of individual, personalized promotion; the checkout process, and improving that is really important; and then the ease of parking as well. So lots of experiments, lots of things happening by us and others, by retailers and by technology companies. And I think there is clearly a bounce-back on the physical world compared to the pure online -- Internet, just because I do think payment and ease and convenience can be enhanced by technology in the store environment. So we're looking forward to those introductions into the physical world. That will -- I think that will make physical shopping a lot more easier and convenient. And then, obviously, there's so much benefits to physical shopping compared to looking on your phone and trying to buy stuff. So -- and what's fascinating to us, fascinating -- and we see it because remember, we have [our rights], so we can see the high level of returns that we see from online sales to the physical stores is never talked about, okay? But if you wanted to go, write a research report, Craig, that would be the big focus because everybody wants to say, here is the gross Internet sale but they don't want to tell you the net, they want to hit the physical world. But the returns are staggering, okay, especially in the product that I'm discussing but no one wants to talk about that.

CRAIG RICHARD SCHMIDT: So I can -- I understand your frustration but thank you for your answers.

DAVID E. SIMON: Sure. Well, I'm not frustrated by the way. Just so it's clear, I'm not -- I'm just saying it's very interesting that no one talks about it. It's just a fact.

OPERATOR: Our next question comes from Alexander Goldfarb with Sandler O'Neill.

ALEXANDER DAVID GOLDFARB, MD OF EQUITY RESEARCH & SENIOR REIT ANALYST, SANDLER O'NEILL + PARTNERS, L.P., RESEARCH DIVISION: So 2 questions from us. First, you mentioned the international, and you think that is underappreciated. But just curious, I mean, obviously, in the U.S., you guys have a very efficient platform but globally, you're definitely spread out. So just sort of curious, how you would compare your overseas platforms' efficiency to the U.S.? And then, as you expand into like Thailand or the Middle East, are those -- how those markets are initially versus once you get a concentration of assets? Do you really see a material improvement in operations or the Premium Outlets are -- work very well as a standalone or in clusters?

DAVID E. SIMON: Well, I'd say both. I mean, the reality is our joint ventures with the Premium Outlet business is -- has its own group of personnel. So they can add -- as they add product to their platform, I mean, they get scale. It's safe to say, no one -- none of our investments overseas has anywhere near the scale and the overhead metrics that we have. I mean, our overhead metrics are underappreciated. I mean, Tom can give you the numbers but many of our peers are at 10% of NOI and we're at 3. Well, give me the numbers.

UNIDENTIFIED COMPANY REPRESENTATIVE: We're at 3.

DAVID E. SIMON: We're 3, and they're 8, 9, 10. So all of our places don't have quite that scale. I could certainly -- if I wanted to or could, I could certainly probably find a way to scale but they're doing fine. And so it is what it is. So they all benefit from adding good product to their platforms. I would say, none of them have the scale that we do, and we don't impose our scale to them at all. And I don't think that we will but you can't rule it out. And if we did, I'm sure, we could do it. We could have better results. But at the moment, everything is good. So we let it go.

ALEXANDER DAVID GOLDFARB: Okay. And then the second question is, you guys -- on the last call, you talked about converting retail to other uses, and obviously, you had to deal out in Northgate, where it looks to be sort of cutting

the mall in half. As you guys increasingly go through, is there like basically a -- not exact percentage but a view of how much existing retail you could do without to replace with things like apartments or hotels or office versus how much you would increase the overall square footage of your properties to add incremental uses? So trying to get a sense of how much of your existing retail would you scale back to increase uses versus how much of the new mixed uses would be incremental to the existing retail that's already there?

DAVID E. SIMON: Well, it's hard to give you a number but let me look at it this way, okay? So I think the greatest opportunity that we have -- I think, we're in good shape with small shop. There's always going to be a mall here or there that has too much small shops. But I think, we're in decent shape there. And so what we have the opportunity to do and we are doing is, we probably -- the mall of the future doesn't need 5, 6, 3. It depends on the mall but it doesn't need the department stores. And then, the ability to reclaim that allows us to densify the properties. And I think we have that opportunity in a rather large scale. So again, this is where we suffer maybe from the scope of what we do and all the activity that we have. But take Phipps as an example. So this is -- was that put in the 8-K or not?

THOMAS WARD: Yes.

DAVID E. SIMON: So it's in the 8-K now, all right. So take Phipps, we had 1 department store built that was 140,000?

RICHARD S. SOKOLOV: 160,000.

DAVID E. SIMON: 160,000. Thank you, Rick. We are adding essentially 300 -- wow, we have -- the office is 324, right? And the hotel is -- how big is that? Whatever. Okay. So let's say, we're adding 500,000 square feet in something that was doing 160,000 -- that was taking up 160,000 square feet. And I encourage you to look at the renderings, do we have the renderings on our website?

RICHARD S. SOKOLOV: We can get them out.

DAVID E. SIMON: Okay. We should, let's get them. Do we have the video of me and Mr. De Niro and Chef Nobu on our website? And Rick?

RICHARD S. SOKOLOV: That's right.

DAVID E. SIMON: [Is it out there]? Okay. So we won't but we'll do that. And Northgate, you say the mall cut in half. I got to tell you Northgate is so much bigger than that. And again, we're -- we have up to 800-plus apartments.

RICHARD S. SOKOLOV: 1,200 apartments. Frankly, we're going to have 1,200 apartments, 600,000 feet of retail. We're going to have probably 600,000 feet of office and the NHL Seattle training facility.

DAVID E. SIMON: So, I mean, the scope of some of these things are really large. But if you're looking for it, here is the number, I can't give it to you other than with these -- we do feel like there is a lot of fun stuff to do. It's aggravating in the sense that it's -- you have to herd all of the cats, in terms of accomplishment. But once we built something, I mean, like once we -- Phipps will be open, hopefully in, and I'm pushing for 2 years but maybe 2.5 years, I think, we're going to be really proud of that and our shareholders will be happy, and Rick and I will have great sushi. So what else could you want?

OPERATOR: Our next question comes from Caitlin Burrows with Goldman Sachs.

CAITLIN BURROWS, RESEARCH ANALYST, GOLDMAN SACHS GROUP INC., RESEARCH DIVISION: So your dividend is going to be up 10.5% this year, which is great. I guess, I was just wondering considering you're growing

cash flow, how are you thinking about prioritizing on development and redevelopment where you're obviously very active versus increasing the dividend and potential acquisition opportunities right now?

DAVID E. SIMON: Well, I'd say to you that I would expect obviously board decision, blah, blah, blah. But we would expect to continue to increase our dividend next year. Clearly, we will be -- our redevelopment is really active and that could be increased, and again, the reality is, Caitlin, that it takes time. So take Brea, which we control that Sears store. It's going to be unbelievable but we have another 6 months of permitting. So we're able to -- I would love to like just step it all into the box and do it all at once but the reality is we can't because we have external constraints. I wouldn't say necessarily capital constraints at all but -- and I'm -- so I'm looking at Brian, he is saying, we don't have any. But a little -- maybe I tend to be a little conservative on that front but anyway, we just have constraints on doing the redevelopment only because we've got the permitting and so on and so forth. So that continues to be a big priority. Obviously, new development is not in the U.S., is not wildly active, though I will tell you that the deal with Macerich, I think is going to be a really good project but that's a 3-year project essentially, okay? So that takes time, and that we are really -- we think that's going to be really a good deal. We've got another one in the works in another area of the country and probably 2 more outlets that we're going to build. But again, those are over -- one could be a little bit quicker but 2 years or so. So that continues to be a focus.

Internationally, it's basically, we take our cash flow there and reinvest it. So it's not what I'd call Simon capital. We're actually not [writing] -- yes, we may not get repatriation back to us but we're basically doing what many thoughtful companies do, is they take profits and they reinvest it and have more profits and keep doing it until they can't do it anymore. So we don't see that. And so that -- so then the next thing is, look, we're going to -- we still have, if the market doesn't like our business or doesn't like what we're doing, we still have a focus on buying stock back, and then we're not all that active in the acquisition area. We could do a deal here or there. We certainly are interested in reclaiming at the right price certain department stores, and that's kind of how we're thinking about the world right now. I hope that's helpful.

CAITLIN BURROWS: It is. And just in terms of that time it takes, is there any -- I think there is some concern out there with the amount of department store reclaims that you have and everyone else does, that finding those

new uses is taking longer. Is that part of it? Or is it not?

DAVID E. SIMON: Not with us. No, no, no, no, sir, no way. That's not our issue. Our issue is execution, permitting, it has nothing to do with demand -- supply and demand, and has nothing to do with capital. That's not us, sorry.

CAITLIN BURROWS: Great to hear. And then maybe just last quickly. It looks like you guys have $600 million of 2.2% debt maturing in early '19. So just wondering the plans to address that, and if it were a 10-year unsecured deal, what you think the rate could be?

DAVID E. SIMON: Well, we'll either use our cash or certainly our -- we have $7 billion available. So that's just basically standard operating procedure, no big deal there. We could go to the unsecured market. Obviously, there is a lot of rate volatility today. We wouldn't probably do it today but we'll have to wait and see kind of where the world shakes out. Brian, I don't know if you want to add anything?

BRIAN J. MCDADE, EXECUTIVE VP & CFO, SIMON PROPERTY GROUP, INC.: Yes. Look, I think our cost of money today on a 10-year basis would be about 4 1/8. So we have as, David said, we've got over $7 billion of liquidity. So we have plenty of options to address the upcoming maturity. It is our only maturity we have in 2019.

DAVID E. SIMON: Yes. And I would say to you what's fascinating, we have very, very little debt coming due in '19 or '20, both on the unsecured and secured basis. So we're in a very good spot to do that. And I would also, again, it's

overlooked but if you look at our peers, internationally, north of the border, domestic, Far East, nobody has our balance sheet, nobody is 5x debt-to-EBITDA, nobody. People are 2x of us. Not 7 but 10-plus. Please appreciate that.

CAITLIN BURROWS: (technical difficulty) commentary?

DAVID E. SIMON: Okay. So you broke up there but anyway. So we're in good shape there, and we'll see what happens on that front.

OPERATOR: Our next question comes from Jeff Donnelly with Wells Fargo.

JEFFREY JOHN DONNELLY, SENIOR ANALYST, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: I guess, a question for both of you, Rick and David. I'm just curious in situations where you guys have redeveloped anchor boxes, do you have any statistics you can share on the change in foot traffic sales or asking rents of the property since the new anchor opened?

DAVID E. SIMON: I'm sure we could put something together. Here is what's interesting that we're seeing, again, I wouldn't like -- this is anecdotal. So don't like go -- and I don't know if this means anything and so it's too early. But we've had department store closings in the portfolio. It's -- there is no hiding that, right? And we have seen, and again, nothing drives our business. This does not drive our business one way or another because the size of the portfolio. But what we've seen, which is actually encouraging is that the in-line sales are actually getting the benefit of the department store closures. And we're also seeing some of the other department stores pick that business up. So at the end of the day, like I said, maybe our industry got just too carried away with having all these big department store boxes. It -- as we transition to the smaller more appropriately sized group, and there will be centers that lose in that and we may have 1 or 2 that we're nervous about.

The reality is, the rest of that center and we will get a better and bigger benefit, I think we'll get healthier. And we're starting to see that. But again, I'd say that's anecdotal and nothing to quantify. But we are seeing that in some of these cases, which I think is encouraging, and that's what we want. We don't need all of those. We don't really get much of an economic benefit from those boxes. We've taken over driving the traffic to the center from those boxes that would have been the historical reason to have them. So this could be healthy other than Rick and I pull our hair out, we want every box leased, we want everything redeveloped, we -- the team's moving really hard, and everybody is like, we're playing very hard here to make this stuff happen quick. I mean, that's the downside, is that, we ain't -- not that we ever have but we are not coasting, okay? We're not coasting. So not that you should feel sorry for us but I'm not asking you to. But that's the reality. We're humping and pumping. And I think this will be -- I really think other than, yes, there will be a couple of losses on the scoreboard for us but at the end of the day, this will be a good thing for us and likely our entire industry.

RICHARD S. SOKOLOV: The one unambiguous result of replacing these anchors is there is no doubt that our total sales and total footfall at our properties is increasing. Just think about David's example at Phipps. When we're done, we're probably going to have triple the retail sales plus have all the hotel traffic plus the office traffic. So in every instance, what we're adding is going to be more productive and more dynamic than what we're replacing.

JEFFREY JOHN DONNELLY: Thanks. And I guess on Sears, I'm curious, were they current on their rent before they filed because typically retailers build up a pre-petition receivable before they file. But it's sounding like some of the landlords that they were largely current, which frankly makes it seem like the bankruptcy started out as a bluff that they got called out on?

DAVID E. SIMON: Yes. We don't -- we're not going to have a bad debt reserve. I think, that's correct.

JEFFREY JOHN DONNELLY: Just one last one on Sears. You mentioned about $1 billion of investment for the 22 boxes you're redeveloping. Should people think of that as like a rule of thumb is $40 million to $50 million a box, or does that include investment beyond the Sears? I think people are looking for a number there. And I'm curious how your return on investment you see on that $1 billion compares to what it's been on prior anchor developments?

DAVID E. SIMON: I think what I would -- the best way to do this is really say to you, Jeff, that we're going to have $1 billion-plus of spend. We've been at this -- Tom, $1 billion for how many years? 6, okay. 6 years, a $1 billion spend, a lot of - so I think, Jeff, if you look at what we've been doing, we've been spending $1 billion. And if you look at '15, '16, some of that may have been tilted toward new development more than redevelopment. It's now going to tilt more toward redevelopment but -- and it -- I think it will go up. But that $1 billion of spend is not just those 22 boxes. That's a lot of stuff in there, okay? So like Phipps is a $350-million-plus spend, it will be over 2 years -- 2.5 probably but 2 years, and that's not Sears, that was an old Belk store.

Northgate, I mean, the Northgate numbers could be much bigger than that but again, that will be over 3 years and again, that's not a Sears box. So when I say that $1 billion-plus spend, it's like -- it's what we -- it's the vision of what we see on redeveloping our business, and it will tilt more toward that. On the other hand, when you add Carsons with Macerich and you add a couple more, I think our spend on average is averaged about $1 billion. It could go up as we add these things. It's not going to go to $2 billion a year but it could go to $1.3 billion, $1.4 billion. We're doing our plan for '19. Tom told me not to invite anybody to our planning process, correct?

THOMAS WARD: Correct.

DAVID E. SIMON: So I'm officially not inviting anybody. But right now, we're looking at a little over a $1 billion, $1.3 billion. So it's -- I think, it's just more than just Sears, okay.

OPERATOR: Our next question comes from Michael Mueller with JPMorgan.

MICHAEL WILLIAM MUELLER, SENIOR ANALYST, JP MORGAN CHASE & CO, RESEARCH DIVISION: It looks like sales growth at the Mills has been similar to the rest of the portfolio. So I'm curious what's enabling you to drive the spreads that are significantly higher there?

RICHARD S. SOKOLOV: The Mills is, they're very well-positioned in virtually every market where they operate, they're a unique mix of full price, value, outlet, entertainment, food, they're all 1.5 million to 2 million square feet and they just are able to attract a very broad segment of shoppers, and they're performing well. There is no real magic, which -- but we have a very broad use of potential users there, and we've been able to keep those things very well leased, and they're very productive.

MICHAEL WILLIAM MUELLER: Is the occupancy cost notably different than the other part of the portfolio?

RICHARD S. SOKOLOV: No.

OPERATOR: Our next question comes from Rich Hill with Morgan Stanley.

RICHARD HILL, HEAD OF U.S. REIT EQUITY AND COMMERCIAL REAL ESTATE DEBT RESEARCH AND HEAD OF U.S. CMBS, MORGAN STANLEY, RESEARCH DIVISION: I want to go back to a comment you made, I think at the outset talking about how maybe your international portfolio has been, I'm going to put words into your mouth, undervalued or underappreciated. When I look at your development pipeline, it looks like there is a tremendous amount of focus on international. So how are you thinking about that? I think it's just a little bit above 10%

right now as a percentage of NOI. Do you -- as you think forward over the next 5 years, do you have a bright-line test as to where you want to get it? Or is it just, you're going to do good deals when you can find them?

DAVID E. SIMON: I think, Rich, it's -- we don't have an, oh boy, we're -- we need to be a 12%, 13%, 14%, 15%, 20%, that's not how we look at it. So the reality is -- and most of that, as you know, is through development that we've made some strategic investments, i.e. Kl[#]©pierre and McArthurGlen that come to mind. And I would -- and remember, we own a decent chunk of value retail. We don't really book any of their earnings, and we've had this discussion, we only book when we get cash, which is cash distributions, which is basically cost accounting for those of you who remember cost accounting, which I do. But long story short, we don't really have -- we don't have -- I don't have any desire to do more. I don't have any desire to do less. I only have desire to make money. So we do think we add value. We do think maybe some of our international partners don't think so but I think we do. So I think it's more deal-driven but it's an important part of our business, and we will continue to invest in our platforms, whether it's Japan, Korea. We announced a development in Thailand, which I think will be fantastic. That opens up that whole country, the tourism there is remarkable. I just happen to do a retail tour in Europe, and the interest in that is the Far East -- our Premium Outlet businesses in the Far East is very -- it has a high level of interest from our retailers. So I just think it's going to be, how do we continue to drive and make money from our investments there. No desire one way or another.

RICHARD HILL: Got it. So just one quick follow-up question then. Maybe this is just in light of some global consolidation that we're seeing. Do you think landlords have to have global footprints to make money?

DAVID E. SIMON: I think it can help but I don't think it's the -- I -- and I have evolved on this. I don't think you need it. I think it can help. I wouldn't do a deal because that was a really important component of that transaction, i.e. exporting retailers from one level to another. However, it's not inconsequential. So take an example, we -- I met, and I won't name a name but I was just in Spain with a large retailer, and the fact that we have a terrific relationship with them in the U.S. and Kl[#]©pierre has a terrific relationship in Europe, doesn't hurt. But it would -- if I had overpaid for the Kl[#]©pierre stake, that relationship wouldn't make it up, okay? So but -- I think it is helpful but it's not a reason to do a deal.

OPERATOR: Our next question comes from Tayo Okusanya with Jefferies.

OMOTAYO TEJAMUDE OKUSANYA, MD AND SENIOR EQUITY RESEARCH ANALYST, JEFFERIES LLC, RESEARCH DIVISION: So my question is more numbers-focused. I'm just trying to understand the nature of the guidance change. And then just kind of given the $0.05 [deed] in 3Q, how come the low end of guidance that was raised rather than the high end as well?

DAVID E. SIMON: Well, look, I don't know. There is lots of numbers. We're a big company, one deal, one event is not going to change this, that and the other. But obviously, the currency in Europe is a little softer than it was. We tend to be conservative. There is nothing really, to really study or read into that, just a number, okay?

OMOTAYO TEJAMUDE OKUSANYA: Okay. Fair enough, David. All right. And then...

DAVID E. SIMON: I mean, right? As I said -- just a number, okay.

OMOTAYO TEJAMUDE OKUSANYA: All right. Fair enough. And then any update in regards to those lease accounting charges we should be expecting for 2019? I know earlier in the year you've kind of given us some -- something....

DAVID E. SIMON: That's the same general number, no change in that. We're not going to -- we'll make that clear when we give our guidance in February. We'll absolutely make it clear. The number that we told the market more or less is the same number. There is not going to be much change there. And we'll debate whether we should -- we might go a

year just saying, here is what it would have been before and after just so people do it but we might not but you'll see the number, and it's not -- and that's really the only thing that's going to -- with these other new pronouncements, that's the only thing that's really going to be different. And again, it's not a huge number. Yes, it's basically 1% . So -- and it's over -- it's pretty much over the -- it's 25 basis points per quarter, and you can do the math to get to the number.

OMOTAYO TEJAMUDE OKUSANYA: Great. And then last one for me. Although, it's a couple of years out, any other information you can just share about the JV with Macerich?

DAVID E. SIMON: No. It's a development JV. I think a lot of people from discussions with Macerich are probably familiar with the site, and we take the site over in about a year and then we build. So it's -- we're happy to be part of it, and we think it will be a very good L.A. Premium Outlet center. So it -- we don't get the site back until Carsons does what they need to do, and the timing on that is roughly a year from now.

OPERATOR: Our next question comes from Haendel St. Juste with Mizuho.

HAENDEL EMMANUEL ST. JUSTE, MD OF AMERICAS RESEARCH & SENIOR EQUITY RESEARCH ANALYST, MIZUHO SECURITIES USA LLC, RESEARCH DIVISION: Dave, I guess, a question for you on the lease termination environment. Are you guys still -- are you receiving early termination buyout offers from retailers? And what's your appetite or sentiment regarding these early buyout offers?

DAVID E. SIMON: We had some, it was lower this quarter -- much lower this quarter than a year-ago quarter, right? It's in our -- actually you can see it in our 8-K, I don't remember the number off the top of like...

THOMAS WARD: It's [$9.8 million] for the quarter.

RICHARD S. SOKOLOV: Versus [$13.2 million].

DAVID E. SIMON: So it's down. I'm not a big fan of them, frankly. But I would say, we'll do them occasionally. Certainly, as you know, it's not in our comp NOI because we -- there is a lot of volatility associated with it. I would say, generally, the buyout requests are down pretty reasonably. Rick, do you agree?

RICHARD S. SOKOLOV: I agree. There has been less activity this period than we had last year.

DAVID E. SIMON: Yes. So it's down. Occasionally, we get it. I'm not a big fan of it but look, we'll do it for -- we'll do it for strategic reasons. One is, maybe we're helping the retailer. Two is, we want the space back. But it's not what we -- I would prefer not to like do a lot of it, and -- but we will do it strategically, and it's basically a function of whether the offer is fair and whether it helps the retailer and whether our prospects for renewing the space quickly. So all that goes into the blender, and then we make a decision one way or another. But we don't run around trying to look for it. It basically comes to us.

HAENDEL EMMANUEL ST. JUSTE: Got it. Got it. All right. That's helpful, thanks. I missed it earlier, I think you mentioned that you did receive business interruption income in the third quarter, and you put it in the Other Income. But I didn't catch a figure. Did you provide one?

DAVID E. SIMON: No, we didn't. But it's the vast majority of the Other Income number.

HAENDEL EMMANUEL ST. JUSTE: Got it. Okay. And capital allocation, I guess, a follow-up to an earlier question. You guys did not buy back any stock after being active, it looks like second quarter stock is pretty much at the same level.

Anything precluding you there from buying back stock? Or just maybe storing up dry powder for incremental redev? Just curious on your thoughts on capital allocation regarding stock buybacks.

DAVID E. SIMON: Yes, I just think we're conservative. I would tell you that I want to hug Brian and Andy every day, maybe I should get a little credit too. I just love our balance sheet where it is. I just love it, love it, love it. I just think it's so cool to have a balance sheet like that. So we're going to be really conservative, thoughtful and then as you mentioned, I mean, obviously, we've got a very active redevelopment pipeline. But I just love, love, love our balance sheet, and I just think that's something that -- it's got to be unique, it's got to be unique set of circumstances to really do anything material to it.

HAENDEL EMMANUEL ST. JUSTE: Okay. Last one, I guess same-store expense growth in the third quarter. Can you provide what that was?

DAVID E. SIMON: I don't know. I mean, I've no idea, but Tom will -- we don't really do that. It's just, our NOI, our comp NOI, we kind of -- it is what it is.

OPERATOR: Our next question comes from Ki Bin Kim with SunTrust.

KI BIN KIM, MD, SUNTRUST ROBINSON HUMPHREY, INC., RESEARCH DIVISION: Just to clarify something you guys mentioned earlier. The definition for leasing spreads and the volume, I think the pool changed and now you're including anchor boxes. If that's correct, do you have any of those stats under the previous language available, just for the sake of comparability?

DAVID E. SIMON: Well, it's not just anchor, it's everything. It's whatever boxes come in and [come out], whatever theaters we renew, whatever amendments we take. And we just, we sat back and said, look, this is our business and it's important to focus on that because I think the market wants to know, great you're getting these boxes back but is there value in that real estate? Why are you paying for it if there is not value on the re-leasing of that? And that's what we are trying to express. So we had -- I will say this, if you look at the earlier definition, we had positive spreads that we think the market would be fine with. But I think, the more important thing is to focus on what the future of our opportunity set is, and that's what we're trying to do.

KI BIN KIM: All right. And if I think about Simon and the size and the scale you guys have, up well above your peers. It's still interesting that on simon.com you can't buy anything. Have you guys thought about that or are there any initiatives underway? I can imagine having something like that could probably help a lot of your data collection initiatives?

DAVID E. SIMON: Have you been studying what we're up to? A very good question and an appropriate question and the best answer, I have a really thoughtful answer and that is to stay tuned.

OPERATOR: Our next question comes from Derek Johnston with Deutsche Bank.

DEREK CHARLES JOHNSTON, RESEARCH ANALYST, DEUTSCHE BANK AG, RESEARCH DIVISION: How is the mixed-use redevelopment at Phipps Plaza reshaping your vision of the portfolio's potentiality? And in your thinking, how many additional large-scale repositionings exist within the mall's portfolio? And what's your appetite for accelerating these investments?

RICHARD S. SOKOLOV: It's interesting. We've been active now for over an hour and the words KOP and King of Prussia haven't come up yet. Just our portfolio has a number of those activities. We emphasized before, when we get back one of these department store boxes, it's more than just 150,000 to 200,000 feet, it's anywhere from 10 to 18 acres adjacent to some of the best real estate in the United States. We are very focused on what we can do with those 18 acres.

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And you are going to see an accelerating amount of activity in a number of our properties where we have back 22 boxes, David said, we'd like to get back others, we've taken back Penney's, we've taken back Belk, we've taken -- so you're going to keep seeing that. We have the capital, we have the expertise, we have the opportunity, and it's going to be accelerating throughout the portfolio. Frankly, we've been doing this for a decade. The difference is, we now have access to these 10 to 18 acres adjacent to our properties that can accelerate all of these activities and they are more top-of-mind for the investment community. So it's a great opportunity. We're well positioned to doing it, and it is in fact happening as we sit here talking to you.

DEREK CHARLES JOHNSTON: Excellent. And just a last one. If you could share any updates on digitally native or e-tailer initiatives? I know have some experience there now and you've been doing it for a while. Any early customer or maybe brand retailer feedback that you think is worth sharing?

DAVID E. SIMON: I would simply say that the store experience, the best way I can and be -- we warble on a little bit, so let me be really concise. The best way I can say that is, the store experience and the store requirement is back. And that is -- it shouldn't be underappreciated. They all want stores. Period, end of story.

RICHARD S. SOKOLOV: And they are opening stores. We have a very active program right now where we've got probably 25 retailers that started on the Internet that have opened stores with us and are opening more because as David said, they work and they make money.

OPERATOR: Our next question comes from Linda Tsai with Barclays.

LINDA TSAI, VP & RESEARCH ANALYST OF RETAIL REITS, BARCLAYS BANK PLC, RESEARCH DIVISION: In terms of the business interruption, insurance from and other income from Puerto Rico this quarter, do you expect anything material in 4Q as well?

DAVID E. SIMON: Yes. We expect to have some more because it comes in over a period of time. But again, all of that was planned in our guidance at the beginning of the year. Remember, we had -- we had Puerto Rico down, so we've been reporting our numbers with basically on average around $35 million of EBITDA, adios, okay? So -- between those 2 assets. So now we're starting to play catch-up and it happened a year ago. So that's been out of our numbers, fourth quarter of last year, all the way up now, and we're starting to come back a little bit as we get to -- as we collect the cash.

LINDA TSAI: Would that continue into '19 as well?

DAVID E. SIMON: Well, at that point the property will be back online, so then we'll have -- then we'll report it, just our normal NOI that we would get from that property.

LINDA TSAI: And then I understand that Sears' going away is a long-term positive for you and the rest of the industry. As this is playing out though, short-term medium-term, do you see store closures or liquidation sales as having a dampening effect on retailers for the holiday season? And then to the extent that the liquidations continue post-holiday?

DAVID E. SIMON: Well, look, let me restate what I've said about Sears. I am disappointed. We didn't want Sears to basically file Chapter 11 or go out of business but given that it's -- at least the Chapter 11 process is happening and given the fact that they -- that we could buy some of the real estate back, we're going to make the best of it. So -- and at the end of the day, that could be a positive for us. And in terms of diversifying the mix of our properties and so on and all the stuff that we already talked about. There is always a little bit of disruption when you have liquidation. Just so you know, when you liquidate a store, you got to follow a lot of rules. We will certainly enforce our legal rights there, and hopefully it will not be disruptive to the other patrons of our shopping environments and/or have any impact on our retailers but there is a process there that they've got to run by, and we intend to make sure they operate accordingly.

LINDA TSAI: Thanks. And then finally, you said you just completed a tour of Europe, and I'm sure you visit regularly. But are there any novel retail models or concepts you felt inspired by or see making it for the U.S.?

DAVID E. SIMON: Well, listen, a lot of the -- there are a lot of great retailers in Europe; Spain, obviously Sweden, Italy, France. So I think what you don't see a lot of is kind of the Internet folks. I mean, we're seeing most of that here. But beyond that in terms of Internet entertainment, restaurants and obviously, fashion and apparel, they're fantastic, and they are very good people. And we do a lot of good stuff with them throughout the world, Asia and Europe and the U.S. so it's important for us. And I think one of the benefits we've gotten over the years is that we're now -- they recognize who we are and what we do, which may not have been the case a decade ago.

OPERATOR: Thank you. I'm not showing any further questions.

DAVID E. SIMON: Go ahead, ma'am.

OPERATOR: I'm not showing any further questions at this time. I would now like to turn the call back over to David Simon for any further remarks.

DAVID E. SIMON: All right. Thank you. We appreciate your questions and we'll talk to you soon.

OPERATOR: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone have a great day.

---- Index References ----

Company: BARCLAYS PLC; BANK OF AMERICA CORP; CITIGROUP INC; DEUTSCHEN BANK AG; GOLDMAN SACHS GROUP INC (THE); HAMMERSON PLC; INTU PROPERTIES PLC; JPMORGAN CHASE AND CO; JV GLOBAL LTD; JEFFERIES LLC; MACERICH CO (THE); MIZUHO SECURITIES USA LLC; MORGAN STANLEY; SANDLER ONEILL AND PARTNERS LP; SERITAGE GROWTH PROPERTIES; SIMON PROPERTY GROUP INC; STONERIDGE INC; SUNTRUST ROBINSON HUMPHREY INC; THOMSON REUTERS CORP; BMO CAPITAL MARKETS CORP; BMO CAPITAL MARKETS LTD; WELLS FARGO SECURITIES LLC; WELLS FARGO SECURITIES LLC; WELLS FARGO SECURITIES LLC

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October 30, 2018

Q3 2018 Brixmor Property Group Inc Earnings Call - Final

Presentation

OPERATOR: Greetings, and welcome to Brixmor Property Group Third Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host for today's call, Stacy Slater. Thank you. You may begin.

STACY SLATER, SVP OF IR, BRIXMOR PROPERTY GROUP INC.: Thank you, Rob, and thank you all for joining Brixmor's third quarter conference call. With me on the call today are Jim Taylor, Chief Executive Officer and President; and Angela Aman, Executive Vice President and Chief Financial Officer; as well as Mark Horgan, Executive Vice President and Chief Investment Officer; and Brian Finnegan, Executive Vice President Leasing, who will be available for Q&A.

Before we begin, let me remind everyone that some of our comments today may contain forward-looking statements that are based on certain assumptions and are subject to inherent risks and uncertainties as described in our SEC filings, and actual future results may differ materially. We assume no obligation to update any forward-looking statements.

Also, we will refer today to certain non-GAAP financial measures. Further information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in the earnings release and supplemental disclosure on the Investor Relations portion of our website. (Operator Instructions)

At this time, it's my pleasure to introduce Jim Taylor.

JAMES M. TAYLOR, CEO, PRESIDENT & DIRECTOR, BRIXMOR PROPERTY GROUP INC.: Thank you, Stacy, and thank you all for joining our third quarter call. I'm very pleased to report that our team is well ahead of the 2018 plan to deliver value now that we outlined at our Investor Day last December. But importantly, we've not only accelerated the delivery of that value through capital recycling, leasing, reinvestment and balance sheet management, we've also substantially increased the intrinsic value of what we own. Said another way, our progress continues to reduce the appropriate cap rate for Brixmor, while it also sets us up for consistent sustainable growth in 2019 and beyond. Allow me to explain.

Let's start with our investment team where year-to-date, we've closed on $780 million of dispositions, well beyond our original goal. With that progress, we now expect to close nearly $1 billion of dispositions this year at a weighted average cap rate just below 8%. This is an outstanding achievement in several respects. First, we realized these cap rates for assets that have averaged in the bottom quartile of what we own as it relates to 3- and 5-mile population density,

average household incomes and most importantly, anchor productivity. Through systematically pruning the bottom of our portfolio and exiting 39 noncore markets, we have significantly improved both the growth prospects and cap rate of our remaining portfolio.

Secondly, we transacted on an asset by asset basis, which we believe drove pricing 5% to 10% higher than what would have been achieved in larger portfolio trades. That effort, which has involved over 50 discrete transactions, captured an additional $50 million to $75 million of value over what might have resulted in portfolio trades. And even more significantly, the nearly $1 billion we expect to close has raised liquidity at NAV or equity valuations at least 40% higher than our average stock price over the past year.

This accelerated disposition activity has enabled us to shift to more of a balanced capital recycling stance for 2019 and beyond. I'm encouraged by identified opportunities for us to cluster further in those retail nodes where we have a dominant presence. Of course, we will also have the ability to acquire more shares under our repurchase program should that prove more advantageous.

Speaking of capital allocation. During the quarter, we repaid over $500 million of secured debt, greatly enhancing our flexibility to accelerate our reinvestment program. Our overall debt plus preferred to EBITDA now stands at 6.5x, which is lower than where half of our shopping center peers stood at the end of 2Q. And importantly, we expect to end this year with no debt maturing until 2021 and more than adequate capital flexibility to fund several years of our value-added plan.

On the reinvestment front, we delivered 8 projects this quarter for a total investment of $54 million at an incremental return of 9%. These projects delivered included the opening of The Shops at Riverhead, one of our first HomeSense locations and Hunter's Creek in Orlando where we opened a new Lucky's Market, transforming a tired under-invested center into the center of its community with a best-in-class specialty grocer.

Allow me to pause on just this quarter's reinvestment progress. Not only did we generate $5 million of incremental income with the delivery of these projects, we've created over $25 million of incremental value before considering any compression in cap rate on the balance of the in-place NOI that naturally occurs when you improve a center.

In the case of Hunter's Creek, we believe our investment drove over 200 basis points of overall cap rate compression. I believe that our opportunity to leverage that kind of value impact of reinvestment truly stands apart within the shopping center sector given our older, well-located portfolio.

This quarter, we added 9 additional projects to our active pipeline comprising $55 million of investment at an incremental return of 10%, bringing our total pipeline underway to over $340 million. Importantly, these new projects impact centers with over $100 million of in-place NOI, so we have tremendous embedded upside from cap rate compression on the centers impacted that goes far beyond our incremental investment.

The projects underway now include our redevelopment of Newtown Shopping Center, which some of you saw in a recent property tour where we are adding great tenants like Harvest, Steak Bar and Turning Point to a center anchored by a very strong regional grocer doing over $900 a foot. From a timing perspective, we've accelerated past our original reinvestment goal set forth at Investor Day as we now expect to deliver over $220 million of accretive reinvestment through the end of next year.

What I think is important to note here is that we are creating tremendous value now in our core business of retail while mitigating leasing and duration risks that occur with ground-up projects or the development of other asset classes. And again, we get additional benefit from the balance of the centers impacted, which, including our shadow pipeline, will be in excess of 35% of our portfolio as they benefit from small shop increases and cap rate compression. Simply put, we're improving the quality of what we own and making money doing so with very modest risk.

Speaking of value creation, let's look at leasing where we signed a sector-leading 2.2 million square feet of new and renewal leases, at cash-on-cash spreads of 13.4%, which included spreads of 39.7% for new deals. For the first 9 months of 2018, we've signed a record 68 new anchor deals. This leasing continues to drive our value-added reinvestments. And as we deliver these new anchor tenants, we're seeing the follow-on growth in our small shop leased occupancy, which grew 110 basis points year-over-year to 85.5%, a record for this company since its IPO in 2013. Please note that our leasing has also driven an overall growth in portfolio average ABR of 8% in the last 2 years as we re-leased space to better tenants at better rents.

Speaking of anchors, subsequent to quarter end on October 14, Sears Holdings filed for Chapter 11 bankruptcy protection. As you will recall, we have been working diligently since joining Brixmor to reduce our Sears exposure by over half through both dispositions and proactively recapturing and re-leasing these spaces. This team has significant experience in re-merchandising and redeveloping former Kmart Sears boxes and since IPO has completed or is finishing over $100 million of such projects, at incremental returns above 9%. Where we haven't seen opportunities for value creation, we've already sold, positioning us to drive very attractive returns on the balance. We've also worked with Sears Kmart on shortening terms and eliminating options on several of our remaining locations so importantly, we can control our fate.

With the filing, we now expect to recapture 9 of our 11 remaining locations. We have leases and/or active LOIs for each of these 9 locations, which are some of the very best of our former Sears Kmart boxes, including Miami Gardens, Naples, Metro Philly and Cincinnati. Our weighted average in-place rent is $5.11 for these boxes, and we expect to achieve new rents that are a multiple of that on the backfill tenants.

As we've said many times before, rent basis truly matters in whether you can make money through disruption. While the timing of the Sears Kmart unwind came a few quarters earlier than we had anticipated, the preemptive hard work of our team has put us in a position to capitalize quickly on this opportunity to meaningfully upgrade our centers. I look forward to reporting to you on the remainder of the Kmart repositions over the coming quarters.

Looking forward, our leasing pipeline continues to be very robust, with over 450 deals representing over $51 million of ABR. And deals executed to date now represent over $44 million of ABR signed but not yet commenced. These executed deals, again, are what drive the 2019 same-store growth expectations that we set forth at our Investor Day. While the earlier-than-anticipated timing of the Sears unwind as well as the projected timing of rent commencements will likely drive us closer to 3% than 4%, I couldn't be more pleased with how these executed deals provide for visible, robust growth through this disruption.

When I joined Brixmor a little over 2 years ago, I introduced myself to the team by sharing a list of my core beliefs, cultural tenets, if you will, that have guided me throughout my career. The first and primary tenet is that great real estate matters but great people matter even more. Over the last 2 years, a unique opportunity to create value at Brixmor has allowed us to assemble one of the best teams in the open-air business.

And this third quarter of 2018 is the quarter where across all facets of our business, the quality of this team has clearly emerged with record-setting leasing, accelerating reinvestment, exceptional capital recycling and prudent balance sheet management. Across the board, what we've achieved not only sets us up for sustainable growth in 2019 and beyond. Each element of our execution has increased the intrinsic value of the well-located assets we own, moving us towards our vision of being the center of the communities we serve. Angela?

ANGELA M. AMAN, EXECUTIVE VP, CFO & TREASURER, BRIXMOR PROPERTY GROUP INC.: Thanks, Jim, and good morning. FFO was $0.42 per share in the third quarter and included a $0.07 loss on debt extinguishment as we've repaid over $500 million of longer-dated high-cost secured debt, significantly increasing our unencumbered asset

base and enhancing our financial and operational flexibility as we continue to execute on the business plan laid out at our Investor Day last December.

Same-property NOI growth during the third quarter was 1.2%, driven by a 270 basis point contribution from base rent, which represents a significant acceleration from the 150 basis point contribution in the first half of 2018 despite a year-over-year decline in billed occupancy. At Investor Day, we underscored our expectation that redevelopment would become a positive contributor to same-property growth beginning in the second half of this year, and the acceleration we saw in top line performance during the third quarter speaks to that underlying trend.

Provision for doubtful accounts and net recoveries were both headwinds to same-property NOI growth in the third quarter, consistent with the expectation communicated on last quarter's call. Provision for doubtful accounts was impacted by unusually low bad debt expense in the prior period and unfavorable bankruptcy reserves in the current period, while net recoveries were impacted primarily by favorable real estate tax refund activity in the prior period.

On a year-to-date basis, same-property NOI growth was 1.3%, just above the midpoint of our full year guidance range of 1% to 1.5%, and we have affirmed this range despite the impact of the Sears Kmart and Mattress Firm bankruptcies that were announced in October and could have as much as a 40 basis point impact on annualized base rent in the fourth quarter. As Jim highlighted in his remarks, we have proactively addressed our Sears Kmart exposure over the last 2 years, successfully repositioning or disposing of 11 of the 22 locations that were in the portfolio when we joined.

At the time of the bankruptcy filing, we had 11 locations remaining, representing approximately 60 basis points of annualized base rent. We have already taken back 6 of the 11 locations, representing 80 basis points of GLA and expect that we will take back another 3, representing 40 basis points of GLA by the end of January.

As a result, we currently expect Sears Kmart to detract approximately 40 basis points of same-property base rent growth or 50 basis points of same-property NOI growth during 2019. In addition, we also expect a detraction of up to 20 basis points of base rent growth or 30 basis points of NOI growth related to Mattress Firm, which includes our current expectations for both lease rejections and selected short-term rent concessions. While it is expected that Mattress Firm will pay rejection damages potentially totaling 1 year of rent, these amounts, if received, would most likely be treated as lease termination income and excluded from same-property NOI.

As Jim indicated earlier, despite these significant headwinds from unusually late in the year bankruptcy activity, we remain confident in our ability to achieve 3% same-property NOI growth in 2019. While the Sears Kmart bankruptcy filing will certainly result in more downtime in 2019 than we had originally anticipated, our forward planning and execution has put us in a position to minimize the potential impact from these closures with rent commencements on backfill tenants expected to begin as early as the fourth quarter of 2019. In fact, Greeneville Commons, the first of these 11 locations to be successfully addressed, was added to the active anchor repositioning pipeline this quarter as leases have already been executed with Marshalls, Five Below and Hobby Lobby.

This further demonstrates the effective and efficient manner with which our leasing teams have approached bankruptcy-impacted space over the last 2 years, consistently setting the pace for the industry as it relates to bringing rent back online following retailer disruption as many of you have noted.

We have tightened our 2018 FFO guidance range to reflect our elevated disposition expectation, and we have further adjusted guidance to reflect the $0.07 loss on debt extinguishment recognized during the third quarter. Please note that the revised guidance does not assume additional loss on debt extinguishment in the fourth quarter, although as Jim mentioned earlier, we are currently evaluating the repayment of additional secured debt before year-end.

Last night, we also announced a 1.8% per share dividend increase, demonstrating both our commitment to providing growing income to shareholders and our commitment to prudently funding our growing value accretive reinvestment pipeline. As a result of share repurchase activity in 2018, we expect that total growth distributions in 2019 will be flat to slightly down despite an attractive per share increase to investors, and we will continue to demonstrate one of the lowest FFO payout ratios in the open-air sector.

The rate of change at Brixmor since May of 2016 has been extraordinary. We have sold over 15% of the portfolio we inherited, and we have or will soon have value accretive reinvestment activities underway at 35% of the remaining portfolio. These value accretive investments are not only enhancing the company's short-term and long-term growth rates, but they are fundamentally improving the underlying quality and residual value of the company's unlevered cash flow stream.

At the same time, we have also substantially improved the company's balance sheet by significantly extending duration, expanding our unencumbered asset base and lowering leverage, which currently sits at 6.5x, all while maintaining over $1 billion of available liquidity. As a result, we are well positioned to capitalize on this current period of disruption as we execute on our balanced and self-funded business plan to continue to create meaningful value for shareholders.

And with that, I will turn the call over to the operator for Q&A.

Questions and Answers

OPERATOR: (Operator Instructions) Our first question comes from Todd Thomas with KeyBanc Capital Markets.

TODD MICHAEL THOMAS, MD AND SENIOR EQUITY RESEARCH ANALYST, KEYBANC CAPITAL MARKETS INC., RESEARCH DIVISION: Just, first question. In terms of the disposition activity and the much higher pace than expected in 2018, can you just provide some guideposts around what you might be thinking for 2019? And some additional insights around your comments that 2019 would be relatively more balanced from an investment standpoint?

JAMES M. TAYLOR: Yes, thanks, Todd. I appreciate the question. As Angela alluded to, we've now sold over 15% of the portfolio, which has enabled us to get after some of the noncore markets and some of the more troubled assets that didn't fit with our strategy going forward. Because we were able to exceed, significantly, the expected volume for 2018, it sets us up in 2019 for much lower level of overall transaction activity, one; and two, to be much more balanced. By that, I mean, what we're selling, we're reinvesting either in additional acquisitions or as I alluded to, share repurchases. And of course, we continue to find great redevelopment opportunities at high single-digit and low double-digit incremental returns, which we think not only create incremental value but as we've said multiple times, significantly improves the intrinsic value of the centers that are impacted. And it's particularly exciting this quarter to see that all coming together. Whether it's in the volume of leasing that we've done, the amount of redevelopment that we're actually delivering now, we're not asking you to wait. In fact, if you look at the total volume that we expect to deliver over the next 5 quarters of $220 million, it's roughly 2/3 of what we have underway. And again, every quarter, you'll see more projects moved from the shadow pipeline into the active. So it's kind of a great position to be in, to have that be self-funded and to take this disruption that's occurring, whether it's Kmart or Mattress Firm or others, and we do expect others to similarly struggle over the coming year or so. It puts us in a great position to make our assets better.

So long-winded answer, I apologize, but I want you to understand how we think about the capital allocation. And importantly, the significant amount of work that Mark and team got done this year in over 50 separate deals, a lot of hard work well ahead of where we expected to be and valuation is much better.

TODD MICHAEL THOMAS: Okay. And just the second question just on the Kmart and Sears opportunity. Can you sort of size up what that opportunity looks like? You mentioned that the 9 that you're going to recapture, the in-place

rents are $5 or so. Can you just talk about that potential mark-to-market? Maybe how much capital investment it might require to re-tenant those spaces and what you're seeing there?

JAMES M. TAYLOR: Yes, I mean, it sets up additional accretive reinvestment. And importantly, we've sold the locations. If you remember several quarters ago, Todd, I said of the 21 or 22 locations that we had, there were some where we didn't see an opportunity to make money. And as I alluded to in our remarks, we've already sold those boxes. So what remains are some of the very best locations that we have, Miami Gardens, Naples, Cincinnati, et cetera. And we're excited about the plans to backfill those. We've got active leases or LOIs on all 9 and I'll let Brian provide some more color.

BRIAN T. FINNEGAN, EVP OF LEASING, BRIXMOR PROPERTY GROUP INC.: Yes, thanks, Jim. And Todd, what we've done to date has really set us up for the opportunity, as Jim mentioned. And just to dig in a little further in terms of what we have on these boxes, we've got 85% of the GLA for our remaining boxes either leased, at lease or LOI. That's to grocers, value apparel retailers, best-in-class fitness operators. And some of the retailers that have been thriving in this space and have -- still have large open to buys. As Jim mentioned in his remarks, our team has gotten very good at demising these boxes and being able to deliver them quickly and execute on these plans. So from a CapEx perspective, we've been delivering a lot of these boxes over the last few years in terms of these redemises. So we don't expect a material uptick in TIs. We expect the TI piece of this to be in the $30 a square foot range. Obviously, there's some landlord work associated with that in terms of demising the boxes. But in terms of our ability to create value, you look at where these remaining boxes are, Metro Philadelphia, Miami, Cincinnati, central Jersey and the demand that we have already. We feel as though we're in a pretty good position. And the last thing I'd say is of the 6 boxes that we're getting back, we expected to get all them back within the last 12 months. So all this does is really accelerate our plans.

OPERATOR: Our next question is from Christy McElroy with Citigroup.

KATHLEEN MCCONNELL, RESEARCH ANALYST, CITIGROUP INC, RESEARCH DIVISION: This is Katy McConnell on for Christy. So just heading into 2019, Sears aside, can you talk about how you're feeling about the level of tenant fallout risk, given other box tenants out there that either have potential for bankruptcy or where the businesses are continuing to suffer or they may be overstored?

JAMES M. TAYLOR: Thanks, Katy. I think as I've said several times over the last few quarters, as we look forward into '19, we do expect that disruption or that activity to revert to more normal levels. I think what we've seen prior to the Sears and Mattress Firm activity this year has been remarkably low. But that doesn't mean that we're not going to continue, as part of this business, to see that type of disruption. So as we look into '19, we do so with an expectation that there will be additional disruption beyond just Sears and Mattress Firm.

But again, it's really an opportunity for us to get our centers better, take these tenants who aren't doing well where we have good, low in-place rents and put in better tenants. And it really, I think, is something unique as an opportunity for us as a company because as we put the capital into these older centers, we're transforming them. And we're creating value even in the space that we're not touching, which is a great opportunity for us to move to that vision of being the center of the community we serve.

So when you're talking about a tenant who's not doing growth on sales, not really driving traffic to the center, you've got to ask yourself, "Do you really want that in your center?" And if you expect that tenant to fail, what's then your plan to replace it with a use that's more relevant and more vibrant? And as I've been saying for the last couple of years and as we've been demonstrating every quarter in terms of the volume of leasing that we're doing, there's no shortage of tenant demand for our centers. And we demonstrate that every quarter with leasing volumes that stand at the top of our peer group.

So we welcome the additional disruption. We think given all the leasing that we've done, we're set up to outperform through that disruption but also importantly, make what we own better.

OPERATOR: Our next question comes from the line of Derek Johnston with Deutsche Bank.

DEREK CHARLES JOHNSTON, RESEARCH ANALYST, DEUTSCHE BANK AG, RESEARCH DIVISION: It looks like you have about $40 million of ABR that's signed but not yet commenced. Over what period should we expect to see this come online? And when I look in terms of the small shop component of that, is the majority coming in centers that are being redeveloped? Or was it just underutilized or vacant space in existing centers?

ANGELA M. AMAN: Yes, thanks, Derek. About $30 million of the $44 million should be online by really June 30 of next year with the remainder coming in, in the second half of 2019. Across the board, I would say it's a mix obviously between normal course leasing activity and redevelopment activity. As the amount we have invested in the value-enhancing redevelopment pipeline continues to grow, we would expect that number on a forward-look basis to continue to increase based on a higher contribution going forward from redevelopment.

JAMES M. TAYLOR: Yes. And importantly, Derek, that -- and I really appreciate the question because when you dig into what we have in our reinvestment pipeline, the small shop occupancy there intentionally lags our portfolio average because as we deliver that new anchor, we're holding some of that space back to lease off the strength of the new anchor. And in fact, once that new anchor is put in, we're seeing increases in those centers of 700 to 900 basis points in small shop occupancy, and importantly, not only occupancy but better tenants, higher-quality tenants as we transform those centers. And that's beginning to be seen in that small shop lease performance that you're seeing, which is up 110 basis points year-over-year. We'll face a little bit of a headwind next quarter as we get some of those Mattress Firm boxes back. But I can guarantee you, we will backfill them very quickly.

DEREK CHARLES JOHNSTON: Great. And just switching gears, any notable trends now that more grocers are expanding delivery and curbside pickup options, given that you have a lot of heavily grocery-anchored centers? Can you just comment on traction you might be seeing with omnichannel efforts with any of your retailers?

JAMES M. TAYLOR: Absolutely. We've been partnering with Kroger and Publix and many of other large grocery tenants as they roll out plans to better serve the customer through multiple channels, which include curbside pickup with very little investment on our part in terms of restriping, resigning the parking lot, providing additional lighting, et cetera, investing capital alongside them in their stores for additional rent. There are many ways that we're capitalizing on this. But importantly, these great well-run grocers are finding ways to continue to evolve and adapt, including better use of technology, which is something that I think you'll see more of over the coming couple of years where not only will customers be able to pick up and order online but apps and other things will allow the experience in the store to be much more efficient.

So I think it's -- the physical store is an incredible competitive advantage in this low-margin business. And I think the well-run grocers are figuring out how to capitalize on some of these changes to better serve their customers.

BRIAN T. FINNEGAN: And I would just add -- close to half our Kroger stores now have ClickList. And for us, it's creating additional trips. As Jim mentioned, it's another way to connect with the consumer and it's very little investment. So we have been working with all of our major grocers in this initiatives -- within these initiatives that they have.

OPERATOR: Our next question is from Karin Ford with MUFG Securities.

KARIN ANN FORD, SENIOR REAL ESTATE ANALYST, MUFG SECURITIES AMERICAS INC., RESEARCH DIVISION: I think Jim, you said in your opening remarks that dispositions this year are going to be $1

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billion and an 8% cap rate. That 8% number seemed a little higher than what we had talked about on previous calls. Just wanted to get your thoughts on whether cap rates have moved? Was it just a different mix that you sold and why that number was a little higher?

JAMES M. TAYLOR: Yes, we're still a little under 8% but as we moved into the balance of the pipeline this year, we're selling some of the tougher assets. It's really a mix issue. We've been pleased that cap rates have held in pretty well, and in fact, a lot of it's being driven by the availability of debt financing where we've seen spreads compressed. So with that, it was really part of what informed our decision, Karin, to accelerate what we were going to get done this year. We saw liquidity there, we saw a strong financing market. If there was one thing I worried about going into 2018, it was whether that liquidity would be there. But in addition to good and attractive debt financing, we're seeing a lot of capital being raised for investments in these community-anchored centers. So we haven't seen a diminution in cap rates. For us, as we've moved into the balance of our execution this year, it's really been more mix.

KARIN ANN FORD: Great. My second question is just on the next step in the debt pay-down plan. You mentioned you might repay some more secured debt here before the end of the year. Can you talk about what rate the next tranche is at? And would you also plan to continue to pay down on the term loan side alongside of it like you did this quarter?

ANGELA M. AMAN: Thanks, Karin. We do lay out sort of tranche by tranche what the debt looks like in the supplemental. You'll see that for really all the remaining secured debt it's at a rate at or just a little bit above 6% in terms of the stated interest rate. The GAAP interest rate, I would note, is a little bit below that, probably 5 3/4% or so, but it's pretty consistent across tranches. The extent of how much debt we end up paying off -- how much of the secured debt we end up paying off in the fourth quarter will depend a lot on sort of the disposition time -- disposition magnitude as well as the timing of disposition activity in the fourth quarter, which is why we haven't sort of embedded that necessarily into the guidance range but certainly continuing to evaluate it. On the term loan, I would expect at this point that the term loan likely gets refinanced in the term loan market.

OPERATOR: Our next question is from Wes Golladay with RBC Capital Markets.

WESLEY KEITH GOLLADAY, ASSOCIATE, RBC CAPITAL MARKETS, LLC, RESEARCH DIVISION: Going back to dispositions, you mentioned selling some of the tougher assets towards the end of the year. How many, I guess, noncore assets as a percentage of NOI remained in the portfolio?

JAMES M. TAYLOR: It's pretty low. I can't give you an exact percentage, but we got rid of a lot of the ones that we saw limited growth prospects for that were too far in terms of our other assets, where frankly, as we looked at anchor productivity, had productivity that we thought signaled flat to declining ABR. We still and always will have assets over the coming years that we look at that hold IRR and say, "That's below our cost of capital." And we'll have the flexibility on a more balanced basis, given all the work that we've done this year, to sell those assets at the right point in time.

There are some assets that we'll continue to lease and then sell. We're seeing good leasing momentum. And I think that's an important thing to note that when you see the improvement in our statistics as it relates to occupancy, et cetera, that's not being driven by our disposition activity. In fact, what we've disposed of is slightly more occupied year-to-date. And that's quite intentional because we are in an environment where you're not getting value for vacant space. So as stewards of our investors' capital, we're very focused on that. But as a percentage of our overall NOI, it's pretty modest now having sold about 15% of the portfolio.

WESLEY KEITH GOLLADAY: Okay. Now looking at the Sears bankruptcy, I know a lot of landlords have prepared for it. How has the mind-set of the retailers changed? Is this something they've been waiting for? Do you get the sense they may accelerate their open -- store opening plans?

BRIAN T. FINNEGAN: I don't think it necessarily changes from a retailer mind-set. Look, the retailers that are thriving in this market and we continue to do a lot of business with, whether those are specialty grocers, whether those are operators like Marshalls and Ross who we've signed leases with this quarter, 3 Five Belows that we did this quarter, those retailers continue to have strong open to buys. And if anything, the fact that landlords like us, and we've done a great job of it, have been able to execute on demising these boxes: working with specific prototypes; working with frontage, and all the things it takes to demise a box up for 3 retailers; and have been doing it consistently and delivering to these retailers over the past few years, I think, gives us a leg up in terms of our ability to retrofit them and bring them back online with better operators.

So I don't necessarily think it changes their plans from an opening perspective, but they now see in terms of their ability to execute and operate out of these spaces. So I think it's additional opportunity there.

OPERATOR: Our next question is from Jeff Donnelly with Wells Fargo.

JEFFREY JOHN DONNELLY, SENIOR ANALYST, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: Jim, I guess, based on Angela's comments, it sounds like the bankruptcies you guys discussed are taking about 80 basis points off your 2019 NOI growth potential and pushing you towards the lower end of that to 3% to 4% NOI growth plan. I guess, the first question is, do you believe NOI for next year could ultimately come in at something in the mid- to high 2% range? Or are you still confident you're kind of within that original range?

And maybe as a follow-up, all else equal, do you think the re-leasing of the anchor spots in '19, combined with the redevelopment seeds you've been planting, position the company for NOI growth in 2020 that could theoretically actually top the 3% to 4% range you're anticipating because of the easy comp you're going to have in '19?

JAMES M. TAYLOR: I do think it positions us for more robust growth in 2020, Jeff. And as it relates to the range, we obviously were conservative as we were setting up '19. That 80 basis points of impact really does move us to the low end of the range, but we still feel confident that we'll achieve that really based in part, as I mentioned in my remarks, on all of the signed but not yet commenced leases that we have. What will be a critical factor next year, Jeff, to that point is the timing of rent commencements. So every day that we beat another timing of rent commencements next year, is worth about $180,000. So it kind of gives you a sense of how much is coming on board as well as, to the latter part of your question, how it sets us up for 2020.

And again, we're also seeing and I'm very grateful that we're seeing good small shop follow-on growth where we're impacting these anchors. And that continues with much better tenants, better credit, better rent, local anchors, things that really drive traffic to the center and make it more relevant to the community it serves. So long-winded answer, I apologize, but we still feel confident in the low end of the range and do believe that it sets us up for better growth in '20.

JEFFREY JOHN DONNELLY: And just maybe a follow-up is, there's certainly a lot of dynamics out there that are pushing construction costs, both labor as well as the materials themselves. But rent growth, when you think about asking rents in markets, I think the view and correct me if I'm wrong, is that maybe the asking rent growth has been maybe a little more tepid in the last 12 to 24 months. I'm just curious if you feel like that's maybe setting you up to rethink or change the scope of some of the bigger redevelopment projects you guys have been contemplating, like, in a mall at 163rd or some of these other projects that are hanging out there just because maybe they won't pencil quite the same as you might have hoped?

JAMES M. TAYLOR: It's a great question. Interestingly, Jeff, in our assets in particular, we have huge embedded upside opportunity in rents. Almost regardless of what happens to the ABR trend in a particular market, including North Dade in Miami, including Western Hills outside of Cincinnati, it gives us a real opportunity because basis matters to outperform as we put capital to work.

Construction costs have had an impact but that impact has typically been less than 75 basis points on what the expected returns for the projects are. So maybe instead of doing a 10.5%, we're doing a 9.75% type return and we've been seeing some of that. But again, it's really the rent that's driving the equation. The other interesting thing, Jeff, is that in a lot of our markets, we did not see the rental rate inflation that you saw in some of the top 5 markets. And that rental rate inflation significantly outpaced underlying tenant productivity, which I think is putting a lot of pressure on folks who have invested recently at high ABRs in those markets. We're in those markets, too. We have one of the largest portfolios in the Northeast. We have one of the largest portfolios in California. But we have low rents. And those low rents give us a lot of flexibility here to create value, both incrementally, Jeff, but I think the other point that I just hope I'm getting across here is: that when you replace an old Kmart with a Sprouts and a Marshalls and a TJ, et cetera, you're improving the cap rate not just on the box but you're improving the cap rate on the total center. And that's what's exciting about this period of time for us is that even with rising construction costs and flat to even in some markets, negative ABR, we can create value. And I see that opportunity ahead. It's in our shadow pipeline. We talk about our shadow pipeline, but the one thing you got to know, Jeff, is we're running really hard on getting those leases signed, getting the construction costs out so that we can move that into active. And in fact, we're out-achieving our goals in terms of that rate. So I like how we're positioned. I like how we're positioned on a relative basis. And again, part of it starts with where we started and that fundamental truth that rent basis matters in this business if you're going to make money.

OPERATOR: Our next question comes from Haendel St. Juste with Mizuho.

HAENDEL EMMANUEL ST. JUSTE, MD OF AMERICAS RESEARCH & SENIOR EQUITY RESEARCH ANALYST, MIZUHO SECURITIES USA LLC, RESEARCH DIVISION: So Jim, just curious, I guess, how you're thinking about the portfolio's long-term prospects from here from a same-store NOI and earnings growth basis after selling close to $1 billion of assets since your Investor Day last December. I understand that 2019 is a bit of a transition year on an earnings basis, given the volume of dispositions this year and redev still ramping and that the same-store pool still has various puts and takes. So I guess, I'm curious what you think the portfolio can generate on a same-store NOI and FFO growth basis on a more steady state basis once all this -- all the noise settles down.

JAMES M. TAYLOR: I think we're right in line with what we laid out at the Investor Day. And as we go into next year, the ability to deliver that 3% same-store growth is really being driven by all the things that we've been doing, as you kind of alluded to, whether it's the portfolio recycling, putting our capital into work in the reinvestment pipeline. But also Haendel, importantly, all the balance sheet work we've done, which gives us additional flexibility going forward to self-fund that reinvestment and take that, what should be on a run-rate basis, 3% to 4% unlevered growth and deliver FFO growth of 5% or better.

And so what's been great about this quarter is I think if you dig into any element of what we've laid out, you'll -- you can see how they're all pointing us forward towards achieving that goal, and in some instances, bettering that goal. We didn't expect Sears Kmart to happen when it did but we certainly expected it to happen. And we expect other disruption to occur. And again, I think we're really in a good position, given our low rent basis and track record with these key tenants, to outperform as we go forward. You just -- you made me think of one other thing, and that is that what's interesting is we all tend to focus on the shopping center REIT sector and what one REIT is doing versus the other REIT. One of the things you got to appreciate is that we actually don't really compete with each other on the ground much. We own probably 10% to 12% of the open-air shopping centers. And through this period of disruption, the fact that you have a national platform, the fact that you have proven relationships with these tenants, the fact that you can deliver boxes on time and to prototype and to budget really matters as these retailers continue to evaluate new store opening plans. And so platforms such as ours, such as the team that has come together here, I think are positioned to really outperform within the industry as it relates to a business that is going through a lot of disruption.

HAENDEL EMMANUEL ST. JUSTE: Appreciate your thoughts there. A follow-up on capital allocation. Looked like you guys haven't been active here for a couple of quarters on the stock buyback front. Just curious where that stands today in your minds with you having opted to buy back some debt and even raising the dividend?

JAMES M. TAYLOR: Well, we bought back about $50 million this quarter, which I think program to-date is about $90 million of total repurchases, leaving us a little over $300 million to repurchase under the program. It levels today. It looks a lot more attractive than it did last quarter in the $17 range. And so we certainly will look to that. The ability to earn that type of equity yield on buying back our stock is quite attractive to us. Importantly, we've built the flexibility to do that while also bringing down our debt-to-EBITDA, and importantly, funding -- prefunding that redev pipeline.

OPERATOR: Our next question comes from the line of Scott Frost with State Street Global Advisors.

SCOTT FROST, RESEARCH ANALYST OF FIXED INCOME AND VP, STATE STREET GLOBAL ADVISORS, INC.: Thank you for talking about the debt maturities. Just where do you expect your revolver balance is to be at year-end just for modeling purposes?

ANGELA M. AMAN: Yes, it's a good question, and it will depend in part on disposition proceeds and as I mentioned earlier, the amount of debt we end up -- the amount of secured debt we end up paying down. Consistently, we have managed with either no -- nothing drawn on the revolver or very little drawn on the revolver. So I would certainly expect that it's in line with where it was at the end of the third quarter, just over $100 million or below that level at year-end.

SCOTT FROST: And you said you're going to refi the term loan in the term loan market. I cuff that at that about $350 million or so remaining based on your previous comments. Is that right? And is there a reason -- why not come to debt capital markets and issue a senior unsecured?

ANGELA M. AMAN: Yes, you're right. There's $350 million left on the term loan. What I would say as it relates to the term loan market relative to the unsecured bond market is that for us, it's really not an either/or decision. We're likely to be active in both markets over the next 6 to 12 months.

SCOTT FROST: So we should expect to see some senior unsecured issuance in debt capital markets in 2019?

ANGELA M. AMAN: Yes.

SCOTT FROST: Can you give us a range?

JAMES M. TAYLOR: Well, I think what's important is that we will approach the market when it appears conducive for us to do so. But importantly, we don't have to. And I think as we manage our capital going forward, that's really the most important guiding principle, that we never put ourselves in the position to have to issue at a particular point in time. With that said, I would expect us to issue in an index-eligible range at some point in 2019.

OPERATOR: Our next question comes from the line of Linda Tsai with Barclays.

LINDA TSAI, VP & RESEARCH ANALYST OF RETAIL REITS, BARCLAYS BANK PLC, RESEARCH DIVISION: Over the last 2 quarters, there's been a 300-basis-point spread between leased and billed. For 2019, will the spread increase because of the Sears and Mattress Firm closures? If not and it narrows, how much of the gains can offset dilution from dispositions and refinancing costs from an FFO perspective?

BRIAN T. FINNEGAN: Linda, this is Brian. Just from a lease versus billed standpoint, I think what it indicates first is that we have got a lot of space back but we also have been able to lease it up very quickly. So typically at this time

of year, that does tighten a bit. With getting the boxes back here in October from Kmart, it will be a little bit wider and expect that to be wider at the beginning of next year. And typically, that tends to tighten in the third and fourth quarter.

JAMES M. TAYLOR: Yes, one point to highlight just from a big picture standpoint, I'll let Angela weigh in, about $44 million of rent signed but not commenced, as Angela mentioned, about $30 million of that will commence by the end of the second quarter next year. So that will be reducing that spread. Hopefully, Brian and team continue to be the most productive team in the business and we're leasing additional space, which takes that leased occupancy higher. We certainly expect that to happen. And then as you mentioned, the take is whatever billed vacancy we get back as a result of Sears Kmart, which Angela, on an occupancy standpoint, is pretty meaningful.

ANGELA M. AMAN: Right. 120 basis points by the end of the first quarter. And as I think about trajectory as it relates to same-property NOI and obviously, the associated FFO impact in 2019, you should expect to see that back-end weighted, again, based on the timing of Sears Kmart and Mattress Firm. I think we talked about situations such as these. We're certainly embedded in that 3% to 4% range we communicated at Investor Day last year. The timing with which those are happening during the year has a more significant impact on 2019 than we might have originally expected. So you should expect to see it back-end weighted, but again, feel confident in that 3% range for next year.

LINDA TSAI: And then Mark, you made some comments earlier about how the team's gotten good at demising the boxes and delivering them sooner. Can you just talk a little bit more about what's driving that process?

BRIAN T. FINNEGAN: This is Brian. I think it's back to our experience with these, and really highlighting what Jim mentioned. We have a national platform and we've been able to deliver to prototype. And as our team on the operations side has been developing relationships with the retailers operation teams, we've gotten very good at delivering flexible formats, right? Understanding that they can live within a certain type of frontage, working with loading docks, sometimes on a box like this, you have one loading dock and you got to split those up for a few different tenants. And so as we've done a number of these over the years, like Ann Arbor, Michigan where we put 2 TJX concepts in with Sierra Trading Post and HomeGoods and added an Ulta, we've been able to work with those retailers to deliver to as close to prototype, while working in what is an irregular box. And we think that experience going forward will allow us to deliver -- to bring these boxes online a lot faster.

OPERATOR: There are no further questions. At this time, I'd like to turn the call back to Stacy Slater for closing comments.

STACY SLATER: Thanks, everyone, for joining us today. We look forward to seeing many of you next week at NAREIT.

JAMES M. TAYLOR: Thank you.

OPERATOR: This will conclude today's conference. You may disconnect your lines at this time, and we thank you for your participation.

looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

---- Index References ----

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Other Indexing: (ASC LLC; Investor Day; STATE STREET GLOBAL ADVISORS INC.; VP & RESEARCH; WELLS FARGO SECURITIES LLC; homegoods; sierra trading) (Todd Thomas; Katy McConnell; Brian T. Finnegan; Brian Finnegan; KATHLEEN MCCONNELL; Michael William Thomas; Michael Thomas; BRIAN FINNEGAN; James M. Taylor; Jim Taylor; DEREK CHARLES JOHNSTON; Jeff Donnelly; Stacy Slater; Mark Horgan; Mark Horgan;

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